



Treasury Committee

Oral evidence: [Financial Conduct Authority Statutory Panels](#),
HC 559

Wednesday 28 October 2015

Ordered by the House of Commons to be published on 28 October 2015

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Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, Helen Goodman, Stephen Goodman, George Kerevan, Chris Philp, Mr Jacob Rees-Mogg, Wes Streeting

Questions 1-83

Examination of Witnesses

Witnesses: **António Simões**, Chair, Practitioner Panel, **Clinton Askew**, Chair, Smaller Business Practitioner Panel, **Sue Lewis**, Chair, Consumer Panel, and **John Trundle**, Member, Markets Practitioner Panel, Financial Conduct Authority, gave evidence.

Q1 Chair: Thank you very much for coming to give evidence to us this afternoon. We need you to do your work, not least because you are one of our main sources, as Parliament, for finding out day to day, in the normal run of business, what is going on inside the regulator and whether the regulator is doing a good job. With that in mind, perhaps I could begin with a straightforward question to Mr Askew: is the regulatory burden now heavier than it was five and 10 years ago and, if so, how much?

Clinton Askew: It would be true to say that it is heavier than perhaps in the past. One way of thinking about that would be in terms of the cost of regulation, partly, but also the amount of work that is required to stay within the regulatory envelope. In terms of the amount, for small firms—I run a small firm—it is quite substantial. I know, from the panel's perspective, the general feeling and the views reflected, probably, in the Practitioner Panel's survey were that there has been an increase in the burden of regulation, but the extent is very hard to quantify.

Q2 Chair: Is it worth the candle?

Clinton Askew: I think that firms would rather operate in a regulated environment, yes, given the alternatives.

Q3 Chair: I am talking about this extra dose.

Clinton Askew: Financial services have moved on a lot in the last five years, and the extent to which we can now perhaps consider rowing back on some of the regulations is a possibility. At the moment, there tends to be a general accretion of regulation in all aspects of life.

Q4 Chair: It is one-way traffic.

Clinton Askew: It tends to be.

Q5 Chair: It is a ratchet.

Clinton Askew: It is a ratchet.

Q6 Chair: Are you actively working up how you think the ratchet should be reversed?

Clinton Askew: One of the thoughts we have had is that there is a possibility of considering whether sunset clauses would be appropriate on certain parts of regulation, yes. Under FAMR, at the moment, they are going to be looking at whether all aspects of the information provided to consumers are relevant. Some of the things that were provided five years ago perhaps are not quite so relevant.

Q7 Chair: This body has been around for 15 years now, so maybe the time has come to look at it with matureness. It is a body, of course, that has been amended by the twin peaks, but the conduct risk regulation has been around for 15 years, in either the FSA or the FCA. Maybe this mature organisation should be looking at some two-way traffic on regulation. If you have proposals, you should publish them and let us know about them.

Clinton Askew: The panel has not published anything specific at the moment, but we are talking with the regulator about ways in which, for example, we can begin to move perhaps towards some form of self-regulation through provision of data. The FCA collates an awful lot of data, and, at the moment, that is internalised. There is a possibility of externalising some of that and using it for benchmarking, and that would allow firms to consider ways of meeting regulatory requirements without, perhaps, having to have the full burden.

Q8 Chair: Mr Simões, is regulation squeezing out competition?

António Simões: We as a panel have discussed this. It is a very important question. We started by asking whether it is sustainable, which is related to the previous question. Tracey McDermott, here last week, talked herself about the fact that the FCA is reviewing

whether it is sustainable. We as a panel have made that point several times to the regulator: encouraging them to review the sustainability of regulation.

The point is, we feel, that a lot of resources today are being devoted to regulation, rather than necessarily innovation for the benefit of consumers. From a competition perspective, if we had more resources dedicated to innovation, you could argue that the market would be more competitive. That is one of the arguments that we have used, as the Practitioner Panel, to engage with the FCA. I think some of those arguments are starting to come through. I was encouraged by the comments last week, here in front of the Committee.

Q9 Chair: Again, it would be helpful to have a published judgment from the panel on this crucial issue, and maybe a periodic check on it coming from the panel, to facilitate Parliament's scrutiny of the new legislative responsibility that, as a result largely of the work of this Committee, the FCA now has with respect to competition, and also the PRA, but it is the FCA that we are primarily concerned about in this field. Would that be possible?

António Simões: If I may add to that, as the chair of the Practitioner Panel, we write every month to the board and the executive of the FCA. In the way we were created as a panel, we advised the FCA and we provided scrutiny through the board of the FCA and the executive. On competition, we do an annual survey and we publish that survey. I can make that available to you.

Q10 Chair: That would be helpful. It would be helpful if you could give us a preliminary view on the receptiveness of the board, particularly in the work of the non-execs on the board, to these exchanges with you. Are they receptive? Are they active? Are they doing their jobs properly?

António Simões: It is a very interesting point. I took over as the chair of the Practitioner Panel on 1 September, so I have chaired one meeting. One of my first decisions as the chair of the panel was to invite the non-executive directors to meet the Practitioner Panel to make sure that we are not just writing a report every month that goes—

Chair: Into the ether.

António Simões: —but that they actually have a relationship with us. Several of the non-executive directors are coming to have dinner with the panel in our next meeting, so that we have that direct channel of communication between the panel and the non-executive directors. That is happening. Many of them attend our panels, not just mine. The independent directors all have an invitation, and several of them attend our panels.

Q11 Chair: Mr Trundle, are the FCA up to the job of regulating markets?

John Trundle: The point to emphasise here is that the task they have been set is an enormously difficult one. From the markets-practitioner point of view, the area we deal with is highly technical and very complex, so we do not underestimate the enormity of their task.

What I would say is that the people they have are very skilled, very experienced and they have been very open and transparent with us. We have a very good dialogue with them. They understand that you can be clear about the purpose of a particular piece of regulation, but the devil is often in the detail in the interpretation. They take it very seriously about trying to understand what works from a market perspective and what might be problematic. They are very willing for us to challenge them and come back to discuss matters that might be of concern to the market practitioners.

Q12 Chair: It is a tough job, they are on the case and they have some good people. Is that a summary of your evidence?

John Trundle: That is a very good summary.

Q13 Chair: Ms Lewis, do you know what the consumer is really paying, as a proportion of total fees for their services, for all this work that is going on to protect consumers? Is that something you have looked at as a consumer panel?

Sue Lewis: No, we have not. We do say in very general terms that the consumer ultimately bears the cost of regulation. On your earlier point, it is very easy to measure the costs of regulation; what it is less easy to do is measure the benefits to consumers of having that consumer protection in place.

Q14 Chair: Is it easy to measure the cost? After all, the cost to the firm in compliance terms is relatively small. The direct compliance burden is the task of having and paying for a compliance department, but then there is the huge extra burden of each time that compliance department brings someone up in the firm and takes them off other activities, which is the lion's share of the true compliance bill.

Sue Lewis: Maybe I put that a little simplistically, but you can measure or estimate the cost to firms to a certain extent.

Q15 Chair: Can I put a thought in your mind that it might be worth taking a look at this? This is a trade-off that has to be looked at in considering regulation. We will come on to the benefits side later in the hearing. This is just looking at the costs side. You were heavily involved, back on this competition point for a moment, in the Cruickshank review, were you not?

Sue Lewis: I was.

Q16 Chair: Did you write the Cruickshank review? Certainly, you were a big fish on the Cruickshank review, if I can call you that. Since then, we have had about half a dozen more reviews of competition in retail banking.

Sue Lewis: I know, we have.

Chair: Are we any further forward than when you wrote or had a hand in writing that report 15 years ago, really?

Sue Lewis: Sadly, I have to say I do not think we are a great deal further forward, no.

Q17 Chair: That is terrible, is it not? I am not trying to put words in your mouth, but it is not a very good state of affairs.

Sue Lewis: To be fair to the CMA, which has most recently looked at it, it is really, really hard. Again, it is reasonably easy to identify what the problems in the market are, but my worry is that what competition authorities or competition inquiries do is reach for demand-side remedies. They say, 'If only we gave consumers a little more information, they would shop around and everything would be fine.' Actually, experience tells us that just does not work terribly well.

People have a bank account, and, from the point of view of the panel, we have made a lot of the lack of transparency on what a bank account actually costs people. It is hard to switch. The economic theory says that people will switch away from high prices and poor service, but you cannot switch away from high prices if you do not know what you are paying, because your account is free at the point of use.

Q18 Chair: It is sustained by a myth called free-in-credit banking.

Sue Lewis: Yes, which is not free, of course; somebody is paying. The costs are just splatted all over the place.

Q19 Chair: Are you concerned about the CMA conclusion on that?

Sue Lewis: Yes.

Q20 Chair: Have they made a mistake?

Sue Lewis: I would not call it a mistake. They have approached it from the point of view that free-if-in-credit is not an inhibitor to switching, which may be true, but, if people do not know what they are paying, the reasons for their switching will not necessarily improve competition.

Q21 Chair: Have you pointed this out to them since the publication of their report?

Sue Lewis: We will certainly be writing to them.

Q22 Chair: It would be very helpful if we could see that as a Committee as soon as reasonably possible. It is a very important piece of work for this Committee, because competition in retail banking and trying to get a better deal for the consumer are pretty central to what we are doing here. The market share has

not changed much, has it? The concentration levels are pretty much the same as they were when you did your work, are they not?

Sue Lewis: They are, yes. New entrants struggle, again possibly because of cross-subsidy between different product lines in banks. A new entrant that wants to offer just banking services struggles with that. The PRA and FCA have made moves on capital-holding, intended to encourage new entrants, but people need to have a clear view of what they have at the moment, what they are switching to and the benefits of that, because switching is a huge hassle.

Q23 Chair: Consumers have been ripped off on a vast scale over the past few years, have they not? That is the truth of the matter, which is why so much compensation is being paid, as a consequence of these regulatory failures. The key question, it seems to me, now is: are we less or as likely, or, terrible to think about, even more likely to get pretty much the same over the next five years? On the basis that you are very close to the regulatory environment, much closer than we are, can you offer a view on the quality of the protection now as against, say, five years ago?

Sue Lewis: There clearly is more and better protection. The FCA is very clearly on the case in terms of rooting out that kind of bad practice that leads to mis-selling, but you also have to look at the culture and incentives within financial services firms. The more the regulator does to nail it down, things just pop up elsewhere. It becomes almost like a game: the regulator makes rules and financial firms look for ways around those rules. It is like one of those pop-up toys that you keep bashing.

Q24 Chair: It is a very depressing picture you are painting. Other colleagues are going to come in more on this area.

Sue Lewis: I do not mean to be, but I am just not convinced that more and tighter regulation is necessarily the answer. Something has to happen within the culture and incentives that drive firm behaviour.

Q25 Chair: That is back to competition plus relationship banking plus individual responsibility, is it not?

Sue Lewis: Maybe you should ask my Practitioner Panel colleagues.

Chair: We will in a minute.

Q26 Mark Garnier: But I am not going to ask them that question. Can I ask all of you to start, and continuing on the cost to firms, about the Financial Services Compensation Scheme? Mr Askew, there was a raised eyebrow, or two raised eyebrows, from the Smaller Business Practitioner Panel; I am going to come to you specifically in a minute, but I am interested in all your views. Tracey McDermott recognised—and in fact these were her words—that the FSCS is “lumpy and unpredictable”. Generally, would the panellists across the board

support some greater predictability in terms of how the FSCS is levied when there is money to be paid out in compensation?

António Simões: As a panel, we have not discussed the FSCS as much. We have discussed the overall costs. This was also a topic last week in terms of the fees and the increase of 7.9%. One of our duties is to review the study by the National Audit Office. Twice a year, we as a panel review the accounts of the FCA, and we encourage the FCA to be a bit more efficient and to focus on value for money.

The FSCS, it is fair to say, disproportionately impacts on smaller firms, and Clinton also sits on my panel, but we as a panel have not discussed FSCS. Personally speaking, more predictability would be desirable, but we have not discussed it as a panel, so it is not the view of the Practitioner Panel necessarily.

John Trundle: The Markets Practitioner Panel also has not discussed this directly, but I think the view would be very similar to the one António gave. Our focus around the cost of regulation tends to be on compliance with the rules for the big markets firms, so, although the cost of directly paying for regulation and financial compensation is a part of the total regulatory cost to the industry, the part that is the focus of our discussion is whether the rule is effective and the cost of compliance with the rule. It is less of a concern for the bigger markets firms than perhaps for the small firms.

Q27 Mark Garnier: Sue, from your point of view as the consumers, at the end of the day, the people who are advising your consumers—if you like, the private customers—are having a bit of a rough time of it. The Chairman just asked you questions about the cost of compliance, but this is about the cost of non-compliance. Do you see any evidence that this is being passed on to consumers, in terms of higher fees following one cycle behind a particularly big hit? Also, are you worried that, if the FSCS becomes too unpredictable, too lumpy and too big, you may potentially have a dearth of advice?

Sue Lewis: I am not sure in what sense the FSCS is unpredictable. I have heard that certain of its decisions have been—

Q28 Mark Garnier: In particular, it is the levy that is placed on those practitioners within that area. For example, if a savings scheme blows up and compensation needs to be paid, the cost of the compensation is then spread among all the people within that particular area, which means that you could be an absolutely pure virgin-white exemplar firm and you still have to pay for it. That makes it difficult to predict what your costs are going to be.

Sue Lewis: Sorry, I thought you were talking about individual cases. Again, we have not really discussed this as a panel at all, I am afraid. Clearly, the costs do fall on consumers in some sense, but we have not made any attempt to quantify that.

Mark Garnier: Mr Askew, here is your moment.

Clinton Askew: Thank you. Yes, we have definitely been concerned about it. We had Mark Neale in front of the panel in September. Our view at the time was that the FSCS levy is in fact insurance cover that is priced without reference to the underlying risk. That was our comment overall. That is probably symptomatic of the way firms feel. To give you some idea of quantum, my own personal firm's liability rose 300% this year. 400% is not unusual. Our total fees overall were up over 105%. I have had people write to me with similar sorts of issues. Smaller firms are definitely being impacted. The thing that is not being considered in the equation is perhaps the impact on profitability, really.

Q29 Mark Garnier: This is an important question. You talk about profitability. If, in years when it is low, you are putting aside huge amounts of money, you are making millions of pounds a time, it is absolutely fantastic and everybody is driving Aston Martins in your industry, then we would not necessarily have a huge amount of sympathy if you then had to do it. What I am particularly worried about is: if you were to get into the situation where this thing goes up 300%, 400% or 500% in one year, you might start busting your regulatory capital requirements. Are you seeing evidence of that within your industry?

Clinton Askew: There is evidence that firms are becoming more marginal in that respect. The interesting thing was that, in 2013, the FSCS themselves said they were moving to a 36-month funding model. There seems to be no evidence of that insofar as the costs this year were substantially more than the costs in the previous two years. I am not sure whether that means that we now should expect three years of high fees or whether that was just a one-year blip and fees will come back down. That funding model is not really clear to practitioners; I am in contact with quite a number. This particular year is quite onerous. Given that there is a higher capital adequacy requirement coming in at the end of this year, some firms will be impacted by that.

Q30 Mark Garnier: In 2001, the Smaller Business Practitioner Panel did make the case for a more predictable Financial Services Compensation Scheme levy. Do you get the sense that you were listened to at all? If not, why not?

Clinton Askew: The challenge with the FSCS levy is always the question of how it is sliced up between the various parties. At the moment, given the funding model we have, the arguments seem to be about how much of that pie you are going to end up paying, rather than whether a pie is the right solution at all. Perhaps there is an opportunity to step back from that and begin to think more widely about how consumers can be protected in these sorts of circumstances.

Q31 Mark Garnier: Do you mean in terms of being bailed out if there is a problem or in terms of protecting their advisers, who may run into trouble because of the levy—or both?

Clinton Askew: There are some structural issues. Mark Neale spoke about it when he came in front of the panel. For example, one of his problems is that he cannot make

recoveries from professional indemnity insurers, because their contracts specifically write out claims from the FSCS. In a way, there are mechanisms that could alleviate some of the problems for advisers. Then, of course, firms faced with large numbers of complaints are folding and then falling back on the FSCS, rather than perhaps being picked up by the PI providers.

Q32 Mark Garnier: What should the FCA do about this?

Clinton Askew: Obviously, at the moment, the FCA's governance of the FSCS is really just an oversight in terms of the financial aspects. In general, we probably could think about having more joined-up thinking across the piece on how the FSCS and the FCA work together, but I have not really given it too much thought.

Q33 Mark Garnier: For example, this year's 300% increase in the FSCS levy and the 7.9% increase in FCA membership fees is a pretty dumb coming together of two things.

Clinton Askew: It is potentially a chunky number. While smaller firms are not necessarily struggling to pay it outright, it certainly is impacting on firms, in my experience.

Q34 Chair: We are hearing the moaning, and we can be sympathetic. But what we need—

Mark Garnier: We need answers.

Chair: Yes, we need to hear some answers. The FCA have a problem, too, and they are making some quite reasonable points when they come before us on both fronts. What is a sensible solution, if not what the FCA are doing? What can strip out any moral hazard there is in any compensation scheme? You do not need to answer that question now, but that is what we are in the market for.

Clinton Askew: We will certainly take it away. As I say, the panel has been interested in the compensation scheme and how it operates. We will undoubtedly see Mark Neale again, and I will make sure we have some answers or some thoughts on the issue.

Mark Garnier: Does anybody else from the other panels have any thoughts?

António Simões: On the broader issue, we have definitely encouraged the FCA to think about value for money. You heard it last week here from both the Chairman and the CEO. The 7.9% increase is not sustainable on an ongoing basis. It is fair to say that, because the consumer credit responsibilities and the payments regulator have come into the responsibilities of the FCA, the 7.9% is more acceptable. While it is not necessarily our ultimate role, we are there to scrutinise that increase, because ultimately we pay for the FCA. On the 7.9% increase, we will continue to give ideas to the FCA on how to be more efficient. They have taken that on board, and I am sure they played that back to you last week when you questioned them.

Q35 Mark Garnier: Can I change the subject to communications within the FCA? Mr Trundle, this might be one for you to start with, and then Mr Simões. Obviously, we on this Committee have taken a great deal of interest in the Davis report, coming on the back of the regulator's rather interesting response to the debacle they had on the insurance market review. Three of your panels highlighted the FCA's communication as still a key priority for their business plan. Mr Trundle and Mr Simões, what are your biggest concerns with their communication strategy?

John Trundle: Historically, that has certainly been a major area of concern for the Markets Practitioner Panel. Even before the events that led to the Davis review, this panel was having discussions with the FCA about its communication strategy and the way it was implemented.

Post the Davis review, there was a lot of change. At our meeting around Easter—I think it was in March—the FCA brought to us their new communications strategy. That was one of the three broad areas of response to the Davis report. We thought they had the right headlines in what they were trying to do. It was very clear that they were working towards a more balanced type of communications strategy. There was a lot more control from the top, which was one of the major points we were emphasising. Certainly, any selective briefing would have to be approved specifically by the Chief Executive, which was something we approved.

It certainly had the right intent, consistent with what the panel had been advising them. Of course, that was only in March. We have seen some of it to date. The jury is out, but we certainly believe in their intent.

António Simões: This is one of the key issues that our panel has raised with the FCA. You heard from my predecessor here in January that we were very concerned also pre-Davis regarding two issues, really, on communications. One was the tone of the communications: was it balanced? That is something you would expect from the practitioners, and we had that debate. Secondly, and more importantly, was this proactive use of media, not just the pre-briefing, but just the proactive use of media. If you remember, the debate here back in January was a bit contentious when my predecessor spoke about this.

Since then, I should report some good progress. Two things happened. We had the first presentation exactly the same as in the Markets Panel, of the new communications strategy. Andrew Whyte is the new Communications Director, so there was a change in the head of that department. It is fair to say that the panel was not satisfied with the first version of that plan, so we asked for that plan to come back to the panel and we discussed that in July.

One of the key points we made is that we were not yet satisfied that all the risks had been considered. Specifically, is there still a risk that what the FCA is saying is misinterpreted? That came back in July. We are now more comfortable, but it still remains to be seen how this new approach—we are only in October—will manifest itself.

Chair: This was a catastrophic failure. It is difficult to imagine a bigger one for a regulator than to break their own rules so badly that they move the market 25% for major firms in the UK. We are relying on you to keep an eye on these things and not just come to a conclusion and have a quiet word with the FCA, but to speak up if you can see trouble ahead.

Q36 George Kerevan: I am interested in looking at the interface in regulation between Europe and the FCA. I notice that the Practitioner Panel report said, “The Panel is keen for the FCA to engage effectively on behalf of the industry in the European policy developments”. Is the FCA engaging effectively? What does that mean in terms of what the FCA should do?

António Simões: I will start and maybe my colleagues can add to this. From a markets perspective, this is particularly key. There are two sides to that. One is engagement, so we definitely are encouraging the FCA to engage as much as possible when those rules are being determined.

Q37 George Kerevan: Is that happening? This is more about the practicality of what has followed on from your report.

António Simões: The FCA is probably in a better position to answer on the detail. The engagement is definitely happening. To your question, the important point is whether it is effective. We have seen some examples where the FCA is able to influence the debate. I cannot say if it is effective at the moment. They are definitely engaging more. It is still to be seen if that—

Q38 George Kerevan: Can you give us some examples of that?

António Simões: MiFID is a good example, actually. Maybe the Markets Panel would be in a better position to comment.

John Trundle: Yes, indeed. MiFID is a very large piece of legislation governing particularly non-equity transparency and those sorts of issues. It is large in the sense that it has been compared to Dodd-Frank. It is large in length and it is large in impact. It clearly is of central importance to all the firms represented by the Markets Practitioner Panel.

First, we engaged with the FCA when the directive was being discussed. The FCA was very involved in the British contribution to that debate. But I said in an earlier answer that, in this area, the devil is often in the detail, and the bits that matter are level 2 and level 3 that follow. Level 2 is the detailed regulations, which in this case are made by ESMA, the European Securities and Markets Authority.

The FCA has put a very considerable effort and investment into working with ESMA. They are significantly highly regarded by their colleagues as being expert in this field. Of course, being the regulator of the international financial market that is most dominant in

Europe puts them in a good place, and they have to live up to that role, and that they have been doing. They chair many of the relevant working groups. For the Markets Practitioner Panel, that is very helpful, because they are in a position to know what is going on and to be aware of the impacts of the rules that are being made on our constituency.

But it is a very difficult job. No member would think they get all of it right all of the time, but we are certainly satisfied that the FCA give it very considerable attention and they prioritise it appropriately. We are pleased at the way the FCA listen to what the Markets Panel has to say. I would like to think the input of the Markets Panel is very constructive. We know what the regulator is trying to achieve.

Q39 George Kerevan: This is on an ongoing basis.

John Trundle: Yes. We talk about it at almost every meeting, and we are currently meeting every two months or so. We had a meeting a couple of weeks ago. We spent two and a half hours on this subject, on just a small proportion of what it covers.

Q40 George Kerevan: Looking at the annual report from the market practitioners, I was rather concerned to read that you say that you “warned the FCA that the majority of firms may not be in a position to be fully compliant” with MiFID II when it comes into effect in January 2017. You warn that this could “disrupt the orderly function of the market” and say it is “proving disruptive for firms”. That is quite strong language. Have we moved towards some resolution of that issue?

John Trundle: We are certainly on that road. We were deliberately using strong language, and I do not have any doubt the FCA heard. Of course, this is not under the FCA’s direct control, because the detail is still under negotiation. That was the point we were making to the regulators generally, but through the FCA: the requirements are moving, but the date is fixed. Firms have to be compliant by the beginning of January 2017.

For example, some of these things are quite esoteric, but just in reporting standards the regulators will define the precise field structure of the way in which you have to provide data to the relevant regulators. That requires very significant investment. It is often heavily integrated with existing systems. Those projects have to be done properly. The worry is about being compliant on 3 January 2017.

Q41 George Kerevan: Are you confident?

John Trundle: The FCA have listened very carefully. They know it will be hard for all firms to be fully compliant with every aspect of the regulation on 3 January 2017. Do I think the FCA will take unreasonable enforcement action against a firm that was making a proper effort to comply? No, I do not.

George Kerevan: We are happy to have that on the record.

John Trundle: While they cannot say that, we have a suitably high level of trust in the FCA to be proportionate where a firm is trying to comply properly with the regulation.

Q42 George Kerevan: You warned about the disruption of an orderly market. Have we moved beyond that point? Have we resolved that issue?

John Trundle: I would not say it is fully resolved, but we have made quite a lot of progress. Of course, the message is not only to the FCA but to the wider range of international regulators behind. I think the FCA has heard, and I am confident they are sharing that with their colleagues in Europe and beyond.

Q43 George Kerevan: On an organisational matter, would you have any direct talks or meetings with the office of the new Commissioner for Financial Stability? Would you go through the FCA?

John Trundle: The panel as such would not have direct contact with Lord Hill's office. Many of the firms that are represented through the panel would have their routes to talk to the Commission. We do discuss capital markets union and give advice, both to the FCA and more generally, about what we would expect to see in that initiative. The tone of what Lord Hill and his office are trying to achieve is very consistent with the discussion we were having earlier in this Committee about having better regulation rather than more regulation and having an eye on its end effectiveness.

Of course, Lord Hill's objective is for growth in employment throughout the European Union, including in Britain, and that is something that we all share. He is trying to think about the best way in which the regulation of financial markets can support that, through themes such as how small and innovative companies can raise finance effectively in a way that still protects consumers but where the regulation does not just squeeze the market out. That is very much on Lord Hill's mind, and we support that area of inquiry.

Q44 Mr Steve Baker: How have we settled in after the Retail Distribution Review, please? You are all looking at one another. There must be some views on the Retail Distribution Review.

Clinton Askew: I will take a lead. In general terms, the Retail Distribution Review has been welcomed by members of the industry. It has obviously seen an escalation in professionalism, examination passes and things like that. The switch away from commissions to fees has, broadly speaking, been welcomed. Firms have got much better at articulating their propositions to consumers. That has all been really quite good. Tracey alluded to the fact that there is higher profitability in the sector. In broad terms, the RDR has been a success for the industry.

Q45 Mr Steve Baker: Do we have any contrary views, please?

António Simões: To build on that but maybe with a slight twist, we have talked a lot in our panel, as a panel, about the advice gap. That is not about the Retail Distribution Review per se. We would support the conclusion that it is a good step forward, but we still have a lot of people in the country who do not have access to advice.

In that sense, the Financial Advice Market Review, led by the FCA and the Treasury, is really welcome. One of the four key objectives Tracey outlined to our panel last month, when she came to present to us, was precisely this Financial Advice Market Review and how can we input into that as a panel. We are quite keen as a panel to now address that. It is not so much revisiting the Retail Distribution Review, but thinking about what the next step is and what is still to do.

Q46 Mr Steve Baker: It is as if you read my mind. I was looking at the objectives for RDR: to maintain an industry; to allow more consumers to have their needs and wants addressed; to make sure that firms are sufficiently viable. Then we read in the *FT* that the Treasury “said adviser numbers had fallen by 2,000 to 24,000”—that is a drop of 7.5% or thereabouts—“in two years, and consumers were increasingly turning to generic information rather than a qualified adviser.” Is it not a really serious problem that millions of people are either going unadvised or turning to generic information? Does that not concern you very much?

António Simões: I am sure Sue wants to add to this.

Sue Lewis: Yes, please.

Mr Steve Baker: *You have all come alive.*

António Simões: This is a very important area for us as a panel. There are aspects like FSCS and others that we have not discussed much as a panel. This is a topic that we feel compelled to discuss every other month, along with the fact that there is still a potential advice gap in the market.

We are aligned with the FCA in this regard. They feel that more work needs to be done. They see the Financial Advice Market Review as a way to address that issue and to think about the right level of advice for the segment of the population that needs advice—not everybody needs advice—and that may not be served today. Sue will probably have a consumer view, but we feel very strongly that we want to work together with the FCA on this.

Sue Lewis: Yes. We have to go back to where we were, which was that there was an awful lot of really bad advice. People were getting a lot of bad advice. What the RDR has done is everything Clinton has said: it has professionalised; it has made advice better for a relatively small group of people who need investment advice. We have to keep remembering that the RDR is about investment advice and not advice-advice as a whole. When people talk about the advice gap, sometimes there is a little bit of confusion over what they are actually talking about. A lot of people do not need investment advice; they need other types of advice. They need generic advice or financial planning.

The problem with the advice market, if I can put it this way, is that consumers are a little scared of it. They are not necessarily averse to paying. Some will tell you they are, but

they are not necessarily averse. You would think nothing of paying a solicitor to write a will, for example. You are paying for a professional service. They are not necessarily averse, but what they want to know is, “What am I getting for my money?” When you have a solicitor write your will, you are getting your wishes in a legally watertight form. It is a sort of insurance, really.

“What is it going to cost me? What am I going to get for it?” Those are questions that are still quite obscure. There will still be a group of people who are not well served, because they do not have a lot of money to invest, but that is a different set of issues.

Q47 Mr Steve Baker: I want to drill into that, because the new pension freedoms might well increase the number of people with relatively small pots of money who need advice. For people with relatively small pots of money, that advice is perhaps proportionately much more important to them than somebody with a lot more in the way of assets investing the same sum. I am most concerned that a large body of people with small assets are currently going to be poorly served. Are we agreed on that? You seem to be playing that problem down a bit, perhaps.

Sue Lewis: It depends what you mean by “served”. If I come out with a £20,000 pension pot, which is roughly the median value at the moment, actually paying someone to invest that money to draw down an income is going to cost you an awful lot. That may not be the best thing to do with it. It may be better, simply, to take the cash.

What Pension Wise can do is help people through that discussion, but there is then a question over whether there is a gap for someone who has £20,000 and actually does want to invest it. The answer is that there probably is a gap there and, yes, we should be worried about that.

Q48 Mr Steve Baker: To what extent is it a problem that people with, say, £20,000 to £50,000 cannot just get a good return on that money in a bank account?

Sue Lewis: You would need to ask the Treasury or the Bank of England.

Q49 Mr Steve Baker: It is a fundamental issue. When it comes to people with relatively small sums of money to invest, savers are ill served by the very low interest rates at the moment.

Sue Lewis: Yes, they are, but that is a macroeconomic question. You have to advise people within the environment we are in at the moment, which is a low interest-rate environment. That means that people are looking for yield and it means they are more prey to scams as well, which is something we have not touched upon.

Q50 Mr Steve Baker: Perhaps we might touch upon it now. I saw a scam recently, or what I consider to be a scam, involving parking spaces at airports.

Sue Lewis: Yes.

Mr Steve Baker: Would you mind expressing a view about parking spaces at airports?

Sue Lewis: I was actually on *Money Box* a couple of weeks ago when this was discussed.

Helen Goodman: For those of us who do not know, what is the connection?

Mr Steve Baker: The investment proposal is that people can buy individual parking spaces at airports in the same way that some will buy rooms in hotels. Then there is an income stream from owning that parking space. A number of claims that are not very credible are being made about the benefits of such a purchase.

Sue Lewis: It is obviously a completely illiquid investment. It is not regulated. People need to understand those two key things. One, it is not regulated. You have no comeback if you buy a dozen parking spaces, and you probably cannot sell them either. You might be able to, but the chances are that you will not be able to sell them. That kind of advice can be done generically, actually. It is not a scam in the sense that someone is trying to rob you. It is just a really, really dodgy investment.

Q51 Mr Steve Baker: That is at the heart of the problem that I am trying to get to. On the one hand, I understand clearly that you are saying low interest rates are a macroeconomic problem and therefore not within your remit.

Sue Lewis: I wish.

Mr Steve Baker: Yes. On the other hand, we are sitting here and we seem to be agreed that some very poor quality investments are now emerging as people search for yield, precisely because their £50,000 pot, which they treasure because it has taken a lifetime to accumulate, cannot be placed in a bank account for a decent rate of interest. Is that a fair summary of where we think we are? In which case, is there not a tight coupling between the work you are doing and the fact of low interest-rate environments around the world.

Sue Lewis: Sorry, I missed the question.

Mr Steve Baker: I am trying to establish that many of the things you are working on and about which you are concerned are fundamentally influenced by the macroeconomic environment in a way that they perhaps might not be if interest rates were higher, at their historic norms.

Sue Lewis: People would make different decisions and a lot more people would probably bank their cash, because they could see it and they could see what they were getting back from it. But the problem of people searching for yield and scams would exist in any environment, because people can be persuaded quite easily that something is a good thing.

Q52 Mr Steve Baker: Is it not the case that the scale of those scams and people's vulnerability to them would be much diminished if interest rates were higher? Would that not be what you would expect?

Sue Lewis: I do not know. I am sorry.

António Simões: You would still need to solve the same advice issue. It is fundamental that we do it for this environment but also for a higher interest-rate environment. One thing we have argued as a panel is that we should have more certainty in the regulatory regime so that firms are confident they can offer advice to someone with a £40,000 pot and that advice is going to be simple, straightforward and the cost of providing that advice is also commensurate. There is something about the certainty.

That is why one of our panel members is part of the Financial Advice Market Review. We want to participate in that, and all the panels will contribute a lot to it. It is one of the key pieces of work for the FCA over the coming months.

Q53 Mr Steve Baker: By way of wrapping this up, do you believe the Financial Advice Market Review has the right terms of reference and is likely to go some way towards solving this set of problems?

António Simões: We were very supportive of the terms of reference. "Concerned" is probably the wrong word, but we offered a word of warning in terms of the timescales, which are very ambitious. It is an issue that has been around for quite a long time. It is important that we get to the right solution, rather than to one quickly. That is just a comment we made in our October meeting when we discussed this with Tracey; she was actually the one who presented on this.

Q54 Mr Steve Baker: Is it possible that we are just dealing with the unintended consequences of RDR and we are just going backwards?

Clinton Askew: Can I come back to your point? You were talking about getting advice for small pots at the point of retirement. One of the challenges that individuals face is the complexity of choices. There are more choices today than there have been for many years. In an advice sense, that means it is more costly to deliver. António is right: to some extent, one of the challenges faced by the advice community is simply that it is difficult to be certain about some of these issues at the moment. The question is whether firms actively engage in that area or if they see it as something that is perhaps problematic. That in itself is worthy of consideration and it may be something that is considered under the FAMR discussions.

Sue Lewis: I really would not want to lose consumer protection as a result of this review. This is complex. For pensions, we are talking about 30 years of people's lives and the decisions they make are really important. I would not want to lose those consumer protections. I do not know how to square the circle, but we are certainly looking at it.

Mr Steve Baker: We will look forward to the review. Thank you very much.

Q55 Stephen Hammond: Mr Trundle, in my reading into this, I met a number of investment firms. When asked for their view on the FCA, they said “capricious” and “opaque”. One of them said, “Every time we say something to them, it sounds almost as if they think we are lying to them.” Why do so many people in the wholesale market express a lack of faith in the FCA? How can it be rectified?

John Trundle: The tone you get depends very much on whom you talk to.

Q56 Stephen Hammond: These were some of the biggest investment firms, including the CEO of probably the biggest investment firm in this country.

John Trundle: Yes. In the Markets Panel, you get a more nuanced view than that. We were talking earlier about the very large step-change in regulation there has been. Since the financial crisis, the total quantum of regulation has been huge. Although the legislative part of that is now probably largely behind us, as we were saying earlier to Mr Kerevan, the implementation of that is still going on.

All firms are having to adjust to a very different environment. Quite a lot of that adjustment requires a good understanding of precisely what is required. These areas are inherently complex, as I said earlier. You can go to the FCA and you can ask for guidance on particular parts, but they may not be in a position to give you precise guidance in respect of the precise thing you want to do. They are not going to be able to interpret for all circumstances. I suspect what you are hearing is the frustration about the continuing uncertainty.

What I conclude from what you describe is that we now need a period of stability where we all accept that the world of regulation has changed, but we want a period of more predictability as the new system beds down, so firms and the FCA know what is required of them and people can institutionalise the way in which they achieve compliance.

Q57 Stephen Hammond: In your answer to Mr Kerevan earlier on, you were talking about how ESMA works and the relationship between ESMA and the FCA, particularly with regard to some of the things that are coming through from MiFID II. Why was there such a difference in interpretation between what ESMA was saying and how the FCA chose to interpret issues such as Commission Sharing Agreements? There was quite a big gap. The FCA were almost slapped down by ESMA, saying, “You have actually misread exactly what we asked you to say.”

John Trundle: There are always debates on fine matters like that. In general, I do not get the sense of a significant difference of view between the FCA and ESMA or the FCA and the other European regulators that sit round the ESMA table. Nevertheless, there are so many different areas to be interpreted—and the documents run to many pages—that people tend to focus on the areas of disagreement rather than the areas of agreement, but I would assert that there is a very high degree of agreement over most of it.

Q58 Stephen Hammond: You mentioned, quite rightly, that Jonathan Hill is about to do a review of all of the post-financial crash regulations. What would you like to see that cover, as a Markets Panel? Are you going to be contributing to that?

John Trundle: Yes. There are quite a number of small things, and the attractiveness of Lord Hill's approach is precisely his recognition that it is getting lots of small things right rather than trying to do one big thing that will make really a difference in this area. That is consistent with the remark I made earlier about the regulation bedding down.

For example, in the area of prospectuses, there are very heavy requirements on what needs to be in the prospectus. It is very expensive to put it together; it takes a very long time. Our committee has looked at that and we think there are circumstances in which it is possible to have a much more focused prospectus, particularly when the security being issued is in a very standardised form.

Inevitably, there will be a lot of discussion about what "standardisation" means and precisely how you define that, but those are areas where we can make quite a lot of difference. There is a shopping list of things like that that are under discussion.

Q59 Stephen Hammond: Mr Askew, your predecessor described the FCA as being "in line with what seemed a sensible, risk-based approach". Is that your assessment as well?

Clinton Askew: Yes, it is alive to the risks that are out there. In general, its approach is a risk-based one. The challenge for them is to understand the full range of risks that are out there to be considered. At the moment, obviously, the current "house view" approach is bringing some process to understanding what those risks are. Yes, I would agree with those comments.

Q60 Stephen Hammond: Was it the view of your panel that Mr Wheatley was doing a good job at the FCA, then, on that basis?

Chair: That is a long pause.

Clinton Askew: Sorry, I am just digesting what the panel's view was and what my personal view would be.

Stephen Hammond: Let us suppose that you cannot answer for the whole of your panel. What was your personal view, Mr Askew?

Clinton Askew: At the time, given the breadth of the waterfront the FCA has to consider these days, yes, I thought he was doing a reasonably credible job.

Q61 Stephen Hammond: Given that the FCA is supposed to be independent of the Government, do you or your panel view the Chancellor's decision to get rid of Mr Wheatley as interference from the Government that should not have happened?

Clinton Askew: I cannot answer for the panel. My personal view is, yes, it does appear to be some politicisation of an independent regulator, but that is the Government's decision. At any point in time, the Government are going to hold sway on that sort of issue.

Q62 Stephen Hammond: Is that a unanimous view of the panel? I mean the rest of our witnesses here today. Do you all concur with what Mr Askew has said? Broadly speaking, the proposition is that the FCA should be independent of Government and, therefore, the action by the Chancellor you would regard as inappropriate interference.

Sue Lewis: The statute gives the Chancellor the right to appoint or not reappoint the CEO of the Financial Conduct Authority. I do think that sent a certain signal, but it cannot be argued, on the face of it, that that was politicisation. It is the perception of the action, rather than the action itself.

John Trundle: I would put it in similar terms. It is the role of the Chancellor to make that appointment. Martin Wheatley's term expired in March of next year. There was a discussion about whether Martin would be reappointed. When he knew he would not be reappointed, I understand he decided to leave. That meant there was further change in the senior hierarchy of the FCA. It was the consequence of the decision, rather than the decision itself, that was discussed by the Markets Practitioner Panel, which was about the stability and continuity in the leadership of the FCA.

We had a discussion with the Chairman precisely about that subject, and we were satisfied with the answers the Chairman gave us about the board leading on that, getting in very good-quality people, including those covering the wholesale markets area, which was our primary concern, and providing that the board support the new management team. We were satisfied with the FCA's response to the position they were in at this point.

António Simões: As a panel, we had two discussions on the executive committee. Obviously, we were not involved in the replacement of the CEO. It is also fair to add that a lot of the changes at executive level started with the Davis review. If you go back, most of the executives were changed after the Davis review and the report, prior to the departure of Martin Wheatley. We had a discussion with Martin and the Chairman of the FCA at that moment in time, because we were concerned. The stability of the executive was an important thing for us.

We then had a discussion more recently—indeed, last month—with Tracey, where she outlined the four priorities for her and the FCA, a key one being the stability of her team. We have discussed it extensively from that perspective, and we feel that the stability of the executive going forward is now important.

Q63 Chair: You have been hearing some of the complaints that many of us are getting from the regulated community. It is in the nature of the regulated community that they are likely to complain and lobby us, and I suspect that would be the case even if every aspect of their work was outstanding. But it is the scale of complaint that some of us at least have been hearing, which is unprecedented

over, certainly, my time in Parliament. This is what we have been hearing over the past few years. The complaints I have been getting are more in the area of: “They are out of their depth. They are not up to it. They do not engage enough or they do not engage at all”, rather than malice or those sorts of things.

Underneath it all, does the panel not agree that the FCA have a hugely difficult job to do? It was, after all, Parliament that gave them this job. Anybody who believes this is a cakewalk needs to start thinking about exactly what we are demanding of them. It is in the nature of the job they have been given that these complaints are likely to come. Is there anybody who demurs from that?

António Simões: I would like to add something. We do an annual panel survey, which I mentioned earlier. We measure two things: we measure the effectiveness of the regulation and satisfaction with the regulator. As the Chairman rightly says, the regulated will always have a view that has some sort of tension with the regulator, but the numbers actually speak for themselves.

In the year that the FCA was created, 2013, we, the industry, judged the effectiveness of the regulator at 4.6. In the second year, which was 2014, we judged it at 6.5. This year, we judged it as 6.7. This is a survey of the entire industry. I hear some of the same views, but when we survey everybody we have a statistically significant sample where it feels, to my mind, that the effectiveness of the regulator has improved in a very, very difficult—

Chair: It has been and is improving.

António Simões: It is a difficult thing to judge. Our view is that today, at executive and board levels, the FCA has been able to put the customer and the conduct agenda at the forefront in a way that probably was not there two and a half years ago. From that perspective, we should praise the regulator. There is much more to do, and 6.7 is not 10.

Q64 Stephen Hammond: No, 6.7 is not bad. It is out of 10, presumably.

António Simões: Yes, it is out of 10.

Stephen Hammond: Is there any difference between retail and wholesale responses?

António Simões: There is. That is a very good question, and I will submit the full detailed report to the Committee, because it is a very interesting one.

Chair: It would be useful to see it for every year, as well, in a standard document.

António Simões: I will do that. The way we slice it, if you can put it that way, is by size of firm. It is not necessarily wholesale and retail, but the very large firms and the different firms down to the smaller firms. It is fair to say that the larger firms are slightly less satisfied than the smaller firms. It is probably fair to say that some of the comments you heard come from the larger firms.

As we look at the entire industry, it is still important—we discussed this as a panel, to keep ourselves honest—that the effectiveness has been increasing. The second thing we

measure is satisfaction and that increased last year from 6.9 to 7.1. There is a positive trend. We have more to do, but that is a positive trend.

Chair: It would be very helpful to see that. If you can try to maintain a continuous series, we can monitor it over time. However imperfect the base may be, the continuity adds some value, which is a point we are trying to make to the Chancellor with respect to the distributional analysis of his tax and welfare changes.

Q65 Wes Streeting: The FCA is consulting on introducing a deadline for PPI claims. The proposal has come in for some criticism, understandably, from consumer groups, including *Which?* and Martin Lewis from *moneysavingexpert.com*, saying that this would be to the detriment of the consumer interest. Sue Lewis, initially, these are fair criticisms, are they not?

Sue Lewis: We have not formed a view on this as a panel yet. We can understand why the FCA wants to do this, but it depends on how it is done. Can I just pick up the previous point about effectiveness, Chairman? Sorry, I cannot really answer your question.

Chair: You would rather answer the previous one.

Sue Lewis: If that is okay, yes.

Chair: We do not always permit that, but we will on this occasion.

Sue Lewis: It is just that I would really like to think about what we mean by “effectiveness” at a time when complaints to the ombudsman are going up and fines are going up. In other words, the FCA does not really seem to be preventing the kind of conduct it is meant to prevent. We need some different metrics for effectiveness. That is all I wanted to say. Is that all right?

Q66 Chair: I touched on the basis. It sounds as if that is one for the panels to think about.

Sue Lewis: Yes, we can think about that together.

António Simões: We have a good working relationship. I agree: this is just one metric. It is how the industry judges the effectiveness of the regulator, and it is subjective. This is the view that we ask for from the firms. We should actually look at different metrics and come back to the FCA and the Committee.

Q67 Wes Streeting: I am going to bring you back to PPI now; otherwise the Chairman will be asking questions about my effectiveness. In your answer, Sue, you said that it is partly about how this is done. If a deadline came with a commitment to swift compensation, do you think the Consumer Panel might welcome the proposed deadline?

Sue Lewis: I would not go as far as to say we would welcome it, but we might say that was acceptable.

Q68 Wes Streeting: It might soften the blow. Are you concerned, as I am, that in 2011 the Consumer Panel called for swift compensation in any event, and here we are in 2015 and it is still not happening? That has to be a cause for concern, has it not?

Sue Lewis: Yes. We have heard the Plevin judgment, which of course muddies the water somewhat in terms of the idea of a long stop. As I say, I am afraid we do not yet have a considered view on this, but we will look at the proposals. It does depend on how it is done.

Q69 Wes Streeting: Turning to other panel members, is a deadline for PPI claims something you would welcome?

António Simões: We welcome the consultation, first of all. In the same way Sue was referring to, Plevin particularly muddied the waters, to use your expression. It is important that the FCA has a view. At the moment, the firms and, particularly, claims-management companies are starting to use Plevin. It is important for us as an industry to have clarity on that.

The consultation is important. It depends on how it is done as to whether we welcome it or not. As a panel, we have not yet discussed it. We will discuss it as we would discuss any other issue. I reserve judgment at the moment. We welcome the fact that the FCA is engaging with the industry and all the stakeholders in getting their views and then will publish something. We will engage over the coming months.

Clinton Askew: I concur with António, really. It is good that we are having a review to look at the situation again. We will wait and see what the judgment is.

Wes Streeting: John Trundle, is that your view as well?

John Trundle: This is a matter for the other panels, rather than for wholesale markets.

Q70 Wes Streeting: I am just interested. I appreciate the consistent message that the panels have not discussed this yet. When Martin Wheatley came before the Treasury Committee in February 2014, he gave a view that any conclusion to put a deadline on PPI claims would need to have significant benefits attached to that. What benefits could be offered to consumers in return for a deadline on PPI claims? Are there particular concessions or benefits that could be offered?

Sue Lewis: It is about what you said earlier: speedy redress.

Wes Streeting: Speed is the most important factor.

Sue Lewis: It is about taking the hassle out of the process, getting it done and getting it done quickly and fairly.

Q71 Wes Streeting: What would be the legacy of PPI in any future mis-selling scandals?

Sue Lewis: Hopefully it would act as a little bit of a deterrent, you would hope. If it had been done as a collective scheme, it could have been done a lot more quickly and cleanly. Putting the onus on the individual to claim puts a huge load on the ombudsman service and just protracts the process. Hopefully it could be done more collectively in the future, but hopefully we will not see anything on that kind of scale. We are seeing complaints to the ombudsman about particular products like packaged bank accounts. Those are going up, but, to be honest, I really hope and believe the industry has learnt its lesson from PPI.

António Simões: I agree. The key lesson learned was how to avoid other conduct issues. Obviously, the regulator will hopefully do, as they have already done, a lot of reviews on the enforcement action itself, i.e. the way to give redress. It is more important that we as an industry behave in the right way so that we do not get to that situation. That is what all firms have been working on. It relates to something that was said at the beginning of the Committee's discussion about culture and values and how we address those.

Q72 Helen Goodman: I would like to follow up on some of the questions Steve Baker was asking a little while ago. Mr Askew, your panel would like, as I understand it, to be in a position for your practitioners to approve the business plan of the Money Advice Service. Is that right? Could you explain to me why you think those people who pay the levy should approve the business plan?

Clinton Askew: I am not sure we as a panel would want to approve the business plan, but we would certainly like to have oversight of it.

Q73 Helen Goodman: What is the difference between approving and overseeing?

Clinton Askew: We are not an executive body, are we? We are an advisory group, as a panel. It would simply be an opportunity to pass comment on the fees MAS is putting on the industry. There has been some concern about the cost and, to some extent, probably more concern about the benefits of the Money Advice Service in terms of whether consumers or whether we, as payers for that, were getting good value for money.

Our involvement so far seems to have been quite beneficial to the Money Advice Service. I am on their pilot project at the moment looking at the way that MAS is working. They are taking advice from a collection of individuals about the way they are going to operate in the future. In the past, there has been concern among some members of the panel that we have not seen sufficient outcomes for consumers from the money that is being paid.

Q74 Helen Goodman: If we went down the path you are proposing, do you see any conflict of interest in the points of view your panel might be putting across?

Clinton Askew: It is for the FCA board to approve the business plan of the Money Advice Service, not for the panel, but having some oversight of the Money Advice Service, or at least having some engagement with the Money Advice Service, has proven beneficial in the past.

Q75 Helen Goodman: Could you give me a couple of examples?

Clinton Askew: When it first kicked off, there was a discussion about the number of hits on the website. That metric was seen as one that would be valuable for MAS management to use as a way of judging their success. We felt that was probably not appropriate and that there should be more concrete consumer outcomes so we could see that the consumer journey was taken right the way through. The view now is that that type of click-counting methodology probably was not appropriate.

Q76 Helen Goodman: Was your insight there just that of the average intelligent viewer or did your professional experience come to bear in that? I mean, I could have made that observation.

Clinton Askew: You absolutely could have done. Quite possibly, you could have done, yes. The concern of the panel was simply that significant amounts of money were being spent and the industry was being asked to bear this cost. Again, that was an accretion of costs overall. The question was: could we see any real benefits out of it?

Q77 Helen Goodman: Your underlying concern was that you wanted to control the costs on your members and, obviously, there is no point in just complaining about the costs, but a slightly more constructive engagement might produce the result you were looking for.

Clinton Askew: The general view of industry seems to be that, actually, we do not mind paying the money, but you want to see what you are getting in the way of outcomes. Educating the consumer is a good thing, and it was beneficial to the industry to have that as an outcome. We were not sure that was actually happening. Our concern was less about constraining the cost and more about making sure there were benefits for the money spent. As the MAS budget looks like it will be going forward, there has been a change in that approach. My understanding is that there will be less money spent on things like advertising and more money spent on delivery. That would be welcomed.

Q78 Helen Goodman: Mr Simões, do you see it in the same way? Does MAS give good value for money?

António Simões: Most of MAS discussions actually happen at the Smaller Business Panel rather than at the Practitioner Panel. We have had two debates with MAS, which were very similar to what Clinton described. The important point for us was not necessarily awareness. MAS focused a lot on awareness. We believe MAS should be more focused on actually delivering for customers. We had two short sessions, so it is not fair for me to comment to the same extent, and we worked very closely with the Smaller Business Panel. Indeed, Clinton sits on our panel. Most of that has been done through the Smaller Business Panel.

Q79 Helen Goodman: Ms Lewis, what do you think the impact of more involvement from the other panels will be on consumers?

Sue Lewis: I am not sure it makes a huge difference. We are a statutory consultee on the MAS business plan. We do have a role not in approving it, but in putting our sixpenn'orth into the plan. Is this question about what we think about MAS?

Q80 Helen Goodman: No. You began by making what I thought was a rather astute observation that, because of a hesitation about making changes on the supply side, there was constant attention to the demand side. Advice is yet another example of that, and that is a very fair point. You can tell me what you think about MAS if you want to, but I will come back to the question I was going to ask anyway.

Sue Lewis: That is the job MAS should be doing: it should be doing that generic guidance job. Our challenge to MAS has been, "How is what you are doing, in terms of your activity, meeting your statutory objectives?" Where are the metrics that link those two things together? That has been one challenge, and the other challenge has been working with the FCA. We have started to see overlap with what the FCA does in, if I can put it this way, its direct-to-consumer offer. It is a horrible term.

Helen Goodman: I know what you mean.

Sue Lewis: The FCA's direct-to-consumer offer in some ways appears to overlap with MAS's direct-to-consumer offer. People just get confused. They do not know where to go. Of course, the Government is looking at the whole thing now anyway, including TPAS.

Q81 Helen Goodman: You are not concerned that, if MAS's accountability to the industry was strengthened, the consumer industry would be weakened.

Sue Lewis: No. MAS is accountable to you, ultimately. As a statutory body, it has accountability to Parliament and it needs to balance the views it is getting from all over the place and explain to you how it is meeting its statutory objectives. That is its job. If the industry can help it do that, that is fine and dandy.

Q82 Helen Goodman: You said earlier that switching your bank account is a big hassle.

Sue Lewis: It is a perceived hassle. I may not have said “perceived” but I should have done.

Helen Goodman: You did not say “perceived”. You said it was a big hassle, and I was going to say that I agree with that. The BACS people came to see me the other day and they were telling me they have a marvellous new system, it works incredibly well and it is not a hassle at all. I wondered if you had any comments on that.

Sue Lewis: Yes. Crucially, I missed out the word “perceived”, because, actually, I think it is not a massive hassle. Things go wrong with seven-day switching, but, on the whole, things go right. People can switch. The reasons people do not switch are partly that they see it as a hassle, but, also, perhaps more importantly, they see it as important to have a relationship with their bank.

Yes, I know. Sorry, there was a raised eyebrow there. What they believe is that having a relationship with their bank will help them if they need a loan, a mortgage or an overdraft.

Chair: In fact, they have a relationship with an algorithm.

Helen Goodman: *Yes, exactly.*

Sue Lewis: Exactly. Actually, a lot of financial institutions reward new customers and not existing ones. That tends to be the way it goes, though some are redressing that now. Getting to the heart of what consumers think they are getting out of that relationship and that behavioural thing is quite important. You also have to know that what you are switching to is better. If you do not know what you are paying and all banks look about the same because they have all been fined and they are all awful, there are no real differentiators.

Q83 Helen Goodman: No. You were distinguishing, at the broad level, between measures to strengthen the power of the consumer as opposed to measures to change the performance of the institutions. I just wonder if I could ask you to reflect on the extent to which the regulation aimed at changing their behaviour has not been particularly effective. That is the implication of what you are saying, I think. Does that lead one down the path of thinking that, actually, this demonstrates that we do need to have some structural change?

Sue Lewis: In the banks?

Helen Goodman: Yes.

Sue Lewis: I do not know what the answer is. You could break up the banks. That would be an option. Again, if people cannot differentiate between what is there and know what they have and what they might move to, it is really hard to see how consumers could drive that competition, without knowing what they have and what they are moving to. Breaking

up the banks is not necessarily the answer. I wish I knew what the answer was, but I do not.

Helen Goodman: On that very helpful note, thank you very much.

Sue Lewis: People have been trying to do this for 15 years now.

Chair: I will end where I began, which is to say that we need you to help us do our job. Please make sure that you are supplying us with what we need to do it, which is detailed information. We have commissioned a few odds and ends in exchanges in this meeting, but there will come times when something occurs to you that perhaps does need a more public airing and does need to be put before Parliament. We need you to be proactive in looking for those issues.

Thank you very much for coming to give evidence today. It has been extremely interesting. We will be taking up a number of points you have made.